

NOMINATION OF MITCHELL E. DANIELS, JR.

HEARING
before the
COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

ON THE

NOMINATION OF MITCHELL E. DANIELS, JR. TO BE DIRECTOR OF THE
OFFICE OF MANAGEMENT AND BUDGET

JANUARY 19, 2001

Chairman Lieberman. Good morning. The Committee will please come to order. This morning we are holding a hearing to consider the nomination of Mitchell E. Daniels, Jr. to be Director of the Office of Management and Budget. Mr. Daniels, welcome to the Committee. We are very happy to have you with us today. I would also like to extend a warm welcome to Senator Carnahan, who along with Senator Carper are two new Members of our Committee. We are very pleased to have you join us and look forward to working with you on this Committee during this session.

Senator Voinovich. Thank you, Mr. Chairman. First of all, I would like to welcome our two new Members of this Committee, Jean Carnahan and Tom Carper. I got to know Jean through the Spouses' Organization of the National Governors' Association, and Tom and I served together as chairman and vice-chairman of the National Governors' Association. We look forward to working with you on this Committee, and I think share some of the same perspectives because we have had a little experience on the management side of government.

Chairman Lieberman. Thanks very much, Senator Voinovich.

Senator Carper, I welcomed you in absentia. It is a pleasure to now welcome you in person as a Member of this Committee. You bring your considerable experience as a

Governor to this Committee, one of whose responsibilities is federalism, the relationship between the Federal and State Government. So thank you and we welcome an opening statement at this time.

OPENING STATEMENT OF SENATOR CARPER

Senator Carper. Chairman Lieberman, thank you very much for the warm welcome. I am delighted to be joining you and Senator Thompson, and other colleagues around the table. To our nominee, welcome. Congratulations on your nomination. We look forward to serving with you, and I suspect that some folks in this room today are your family, and we welcome them as well, and we thank you for your willingness to share a good man with the people of America.

As Senator Lieberman had suggested during his remarks, before I was elected to the Senate I served as Governor of my little State for 8 years and served with Senator Biden, the National Governors Association, and with George Voinovich and with now-Senator Carnahan, as well. If you have been looking at me instead of watching Senator Voinovich speak, you would have seen my lips moving, and the reason why is because I agree with much of what he says, and that has been the case for a long time on a lot of subjects.

I found as governor--I chose a great time to be governor--8 years of economic expansion, robust revenue growth. Before I was Governor, I was a congressman for 10 years when we had a real tough time trying to balance our budgets. Before that, I was State Treasurer for 6 years, of Delaware, when we had the worst credit rating in the country, at a time when we initially would always underestimate spending and overestimate revenues, a classic recipe for running deficits and we were pretty good at that back in the 1960's and 1970's.

I found, though, that with robust revenue growth in the last 8 years, that sometimes it is easier to budget when resources are scarce than when resources are plentiful. We are now in a time of plentiful resources. As Senator Voinovich had suggested, the Congress and the President have spent willingly. I know there are a lot of important nominees that the President-elect has sent to us for consideration. I really believe yours might be the most important, and I hope you are as good as your supporters and admirers say, because we are going to need someone with great skill and intellect and ability.

I want to mention a couple of things I want you to think about, and when we get back to questions, I will follow up on these. We have, I think, a great opportunity before us in the form of a budget surplus of some great magnitude. The question for us is what do we do with it, and I would hope that we use a significant portion of it to pay down our debt and to really make us debt-free as a Nation over the course of the next decade. If you look at the tax cuts that have been proposed by the President-elect, many of those tax cuts, the biggest part of them kick in towards the end of this decade, which is when, a lot of times, a lot of our baby boomers want to kick out or step out or step down and to retire. We just have to be mindful of that.

I hope as we go forward, Congress and the President and the new administration working together, we can decide to use a portion of these surpluses to pay down our debt with an eye toward making us debt-free as a Nation by the end of this decade. I hope we can use some of the savings that flow from that debt reduction to shore up, particularly, the Medicare trust fund.

I am a Democrat who likes to cut taxes, and we cut taxes 7 years in a row in my little State. We put in place a litmus test for those tax cuts that said they ought to be fair, they ought to stimulate economic growth, they should simplify the tax code, not make it more complex, and finally they should be sustainable throughout the full business cycle. We have had 8 wonderful years--actually, 9 wonderful years of economic growth, but what was that Harry Truman used to say? The only thing we do not know today is the history we have forgotten--something to that effect. I am sure you recall his actual quote.

We are going to have recessions again, and the OMB and CBO forecasts that we see assume no economic recession. I think it is just important that we keep in mind that the laws of economics have probably not been reinvented, at least not on our watch.

The last thing I would say, in addition to cutting taxes, that in accordance with some kind of litmus test, I hope roughly aligned with what I have laid out, I hope we can do something good for people who don't have health care. I applaud the President-elect's proposal for a refundable tax credit, which I think has a lot of merit. I also like the idea of putting in place a prescription drug program for folks that are older and who need prescription drugs, and finally to invest in our schools.

As Senator Voinovich mentioned--maybe to do a little on the defense side to ensure our readiness and our ability to deploy forces does not diminish. That is a lot to do. We have a lot of money to do it with. At the end of the day, I hope we have acted wisely, rationally, and not foolishly, and have not frittered away a wonderful opportunity to do great good for our country with the dollars that are now at our disposal.

Again, congratulations on your nomination, and Mr. Chairman, I would ask unanimous consent to add to what I have just said, a written statement for the record.

[The prepared statement of Senator Carper follows:]

PREPARED STATEMENT OF SENATOR CARPER

Mr. Chairman, Senator Thompson, and Members of the Committee, it is a privilege to be joining you today for the first time. I am grateful for the opportunity to serve on this distinguished Committee, with its distinguished Chairman and Ranking Member, and I am looking forward to working with all of you on the issues that lie before us.

Certain of the President-elect's nominees are obviously attracting more attention from the media than others, and I can imagine that Mr. Daniels would count it as a blessing that he is among those who are attracting less rather than more attention in this regard. Nevertheless, let me just start off by saying that there is no more important post in the new administration--in my opinion--than the one to which Mr. Daniels has been nominated at OMB. When the President-elect chose Mr. Daniels to head OMB, he let it be known that Mr. Daniels will be one of his key advisers and one of the people most responsible for ensuring that the Federal Government maintains fiscal discipline. Mr. Chairman, given the record of the last decade, and all that we have learned over the last decade about the importance of fiscal discipline to the health of our economy, this responsibility is clearly one of the more important responsibilities that will fall to the new administration.

At this moment when the responsibility to manage fiscal and economic policy is being passed from one administration to another, I think we need to be clear about the role that fiscal policy has played in fostering the economic expansion of the last decade. As you

know as well as anyone, Mr. Chairman, the current expansion has been fueled primarily by an unprecedented wave of private investment and innovation, unleashed in no small part as a result of the concerted effort that has been made, on the part of the President and the Congress--on the part of Republicans and Democrats together--to restore a modicum of fiscal discipline here in Washington.

Now some of these days are espousing the view that a concern for fiscal discipline is an outmoded view--that fiscal discipline is "no longer a problem." Indeed, some have even suggested that--as a long-time fiscal conservative--I may soon need to find myself a new set of budget priorities, and a new economic outlook, now that the era of deficits has given way to a new era of surpluses. I want to use this opportunity, if I might, to make it very clear that, as far as I am concerned, fiscal discipline remains critically important--indeed, in certain respects it has never been more important than it is today.

The rate of private savings in this country is currently negative, Mr. Chairman, and despite all the progress that has been made in moving the Federal Government from a position of a borrower to a position of generating net savings, our economy remains highly dependent on borrowing from abroad--and thus highly susceptible to a loss of confidence on the part of foreign investors in our commitment to maintaining a responsible fiscal posture. Many economists are warning that a loose fiscal policy--whether it comes from irresponsible tax cuts or from excessive spending--could potentially undermine confidence in the dollar, leaving the Federal Reserve with a lose-lose choice between raising interest rates in the face of a slowing economy or allowing the dollar to deteriorate unchecked, thus risking a return to the days of 1970's-style stagnation. When one considers that the retirement of the baby boom generation--with all that that implies for the Nation's long-term fiscal outlook--lies just around the corner, it seems to me, Mr. Chairman, that now more than ever, we need to proceed with a realistic view of the surplus that might be available to the President and the Congress for the purpose of tax cuts or new spending initiatives. It also suggests to me that we must make a point of paying off our national debt in this decade and shoring up Social Security and Medicare sooner rather than later.

Mr. Chairman, I look forward to hearing from Mr. Daniels today and, particularly, to discussing his views with respect to the responsibilities of the Director of OMB for promoting fiscal discipline and presenting the public with an accurate picture of the Nation's long-term fiscal outlook.

Chairman Lieberman. Without objection, so ordered. Thanks, Senator Carper.

Senator Bayh. ... Senator Carper, I personally have discussed with him the need for sound budget analysis based upon solid numbers, not wishful thinking or political considerations, so that we do not undermine the credibility of our public policy decision-making, and he agreed with me along those lines, and I think would agree with you in the points you made. ...

Chairman Lieberman. How about the priority that you would give or you would advise the President-elect to give to debt reduction? Not only has it value in itself, but in its way, if circumstances change over time and the surplus projections are not quite as rosy as we believe they are now, money set aside over the 10 years for debt reduction has a little bit more fungibility to it than money we have committed to spend. What priority would you give, in response to the statements Senator Voinovich, Senator Carper, I and others made about debt reduction?

Mr. Daniels. I think I would give it a very high priority, and I believe that is pretty near a consensus view. Again, there may be what I would describe as relatively modest differences about the degree and the pace of debt reduction. Senator Domenici alluded to some rather striking and happy new problems that we might encounter if we are able to pay down the debt at a rate that soon tests our ability to actually do so in a practical matter.

Chairman Lieberman. Thank you, Senator Thompson.

Senator Carper.

Senator Carper. Thank you, Mr. Chairman. Let me follow up, if I could, on a couple of things that I mentioned in my opening statement, as well. Could we talk a bit about revenue forecasts over the next 10 years or so? I had asked a member of my staff to bring and to share with me a list of tax expenditures or tax credits that are expiring or have expired. The revenue assumptions prepared by CBO and OMB, I believe do not assume that these expired or expiring tax credits will be restored or extended, and if you look through this list, my guess is most of them will be. I think there is pretty broad support for extending them.

There are some related concerns with the alternative minimum tax, that if we don't change the current law, then a lot of folks who are really middle-income families, and not much higher than that, are going to end up being caught up in the alternative minimum tax. Just share with me some thoughts you have about how much we keep in mind those expired or expiring tax credits and what we might need to do with the alternative minimum tax, and how that plays back against the revenue forecasts that we are going to be building our budgets on.

Mr. Daniels. I think the answer comes at two levels, in terms of a baseline, and that is what you are probably reacting to, various baseline forecasts. They are not meant to be predictive of eventual outcomes. They are only a starting point, as we know, for making policy decisions, whether that is the renewal of existing tax advantages or spending programs, many of which are equally popular, but are not necessarily assumed in the baselines we use.

I think that at a second level, the very practical political level to which you have directed our attention, we cannot take our eye off that ball. The President-elect's tax package at least partially responds to this by incorporating some, but not all of those expirations to which you allude, and partially, but not entirely, to the AMT issue.

It is one we will have to work on together. Beyond that, I think it would be premature for me to comment about the eventual revenue forecast we will be making.

Senator Carper. I hope this is a fair question, but have you had an opportunity to look at the budget surplus forecast prepared by OMB, the most recent, and by CBO? Are you familiar with those?

Mr. Daniels. Yes, to an extent.

Senator Carper. Could you just take a minute and share with me what you know, just in broad terms, of what the surplus is expected to be in either or both instances?

Mr. Daniels. The difference, as you will have noted, is from just south of \$5 trillion to just above \$5.5 trillion aggregate surpluses over 10 years. These are very large numbers, although not so large in a 10-year context. I am struck less by the size of the differences than by the degree of general consensus in terms of the end point of these numbers and also the assumptions underlying them. The range of differences, certainly on economics, is narrower than we have often seen in the past. It does not mean they are right. They could all be wrong, but I think it gives us a reasonable basis for starting out the construction of a new budget, since the disparities between these various starting points are relatively modest.

I do not know, after we have worked on the new OMB forecast, where they will fit, but I suspect they will fit in and around that range.

Senator Carper. Those \$5 trillion figures, do they include revenue inflows into and expenditures from the Social Security-Medicare trust funds?

Mr. Daniels. I am sorry. Again?

Senator Carper. Are those revenues, the budget surpluses, inclusive of inflows and outflows from the Social Security and the Medicare trust funds?

Mr. Daniels. Yes, I believe they are.

Senator Carper. If we back those out, and they are rather substantial, do you recall what we are left with?

Mr. Daniels. Somewhat greater than half would be in the so-called on-budget accounts and somewhat approaching half in the Social Security accounts.

Senator Carper. I am a boomer. I was born in 1947, 54 years ago next Tuesday. And in recognition of that, I have been assigned to, among other committees, not only this one, but the Aging Committee. Among a lot of us in my generation are going to be retiring and drawing down on Social Security roughly in 10 years, and how will that affect those surplus numbers beyond this 10-year period of time and should we be mindful of that?

Mr. Daniels. We should be more than mindful, Senator. When I think about this rather new era that we have entered, of large surpluses, I think of it as a window of opportunity which, if seized, can enable us to deal with the problems to which you are just drawing our attention, and if passed, will make addressing them a much more painful and severe process. As we all know, reform done early, certainly in the entitlements area, can be much more moderate and much less difficult than reform done at the eleventh hour.

Now, our process has not always been known for long-term statesmanship and for acting before the wolf is at the door, and yet I hope, particularly presented with the opportunity of these large, impending surpluses, whether they are closer to five or closer to six or even somewhat lower than either number, I hope that we will find ways to work together to bring reform to the programs on which our generation will depend, and that would be a salutary accomplishment for all concerned.

Senator Carper. One last question before my time expires. I hope we will be mindful as we go forward that, again, we need to show great caution about supporting substantial tax cuts, and I am going to support a number of tax cuts. I think we ought to return some of the money to the taxpayers. We need to be mindful of supporting tax cuts which kick in largely at the end of this 10-year period, at the same period of time when a lot of folks in our country are going to be retiring and drawing down on Social Security and Medicare.

I would ask us to continue to be mindful that we probably have not seen the re-invention of the business cycle or the economic cycle. There will probably be downturns. We have been lucky for 8 or 9 years. For us to assume we are not going to have a recession for another 10 years may be the triumph of man's hope over experience. Last point, Senator Voinovich and I have served the National Governors Association, led it for a period of time. One of the entities we established within the National Governors Association to help governors be better managers was something called the Center for Best Practices, which I believe he chaired and which I chaired, as well.

One of the great things about the National Governors Association is it really exists as an entity not just to lobby the Congress and so forth, but to enable us to identify what is working, to solve our problems in our various States and to enable us to steal those best ideas. Too often, it seems to me that Federal agencies exist to issue rules and regulations, but not so often to share ideas of what is working. As you go forward on the management side of your quest here, as others have spoken to earlier, you may want to keep in mind how we share best practices amongst governors and to see if perhaps the Federal agencies could not somehow encourage that as well at the Federal level.

Mr. Daniels. I appreciate that advice very much, Senator, and my interest in doing that is not conditional. It is clear to me that the ties between OMB and the new administration in general, and the State and local officials of this country should be much tighter than they may have been recently, and better management practices is a good place to start, but I am a Federalist, and I think we have seen a great reinvigoration of State Government, and also local government, over the last couple of decades. You were a leader and a participant in that.

I think that, on a host of fronts, we will be well advised to consult very carefully and I plan to do so on a regular basis, with the National Governors Association and with like organizations, to make sure that, in all the ways in which we interact, in all the ways in which our fiscal policies are tied to each other, as well as the management successes that are happening there in the famous laboratories of democracy, are learned about and are brought home to the benefit of the Federal Government and Federal taxpayers.

Senator Carper. Thanks very much.

Chairman Lieberman. Thanks, Senator Carper. Thanks, Mr. Daniels.

Senator Voinovich. I can testify that you are a Federalist. I was President of the National League of Cities, and working with you as Mayor of the city of Cleveland, there is no question about it, and I am glad to hear you reaffirm your commitment to that. I would like to build on the questions that Senator Carper mentioned, the baby boomers. We talk about the 10-year budget surplus and, by the way, one of the Senators pointed out that the end of that 10-year period is 2 years after President Bush will leave office. Also at the

end of that 10-year period is the baby boomers. We talk about global warming. I think we need to talk about global aging. It seems to me that any of the decisions that we make about our financial decisions ought to also have that in the backdrop of that decision-making, because 1 day we are going to have to pay the piper, and too often in this government we have not done that.

Second, the projections--there is going to be a lot of debate about the projections, and I think Senator Carper mentioned the assumptions that some of the tax benefits that we have will go off. I do not think they will. I think most of them are pretty good. We will extend them, and that will change the number. You talked about the surplus in Medicare Part B. As you know, supposedly the Social Security surplus is not included and we have taken care of that, but the fact is the budget projections also include on the on-budget surplus Part A of Medicare, I think that, from a fiscal point of view, they ought to be taken off the table in calculating your on-budget surplus.

Senator Levin. Thank you. I know that Senator Carper and, I think, others have asked you about some of the budget projections, and I missed some of the earlier testimony perhaps on this. Senator Lieberman asked a number of questions for the record in which you addressed what the projected surplus is and how the Bush tax plan fits in with that and so forth. Let me start by asking you whether you believe that Medicare should enjoy the same protection of its surplus as Social Security does of its surplus?

In answer to Senator Carper's question about that \$5 trillion, I think you left out the Medicare surplus in your calculation and only included the Social Security surplus. But, in any event, why should Medicare not receive the same protection in terms of its surplus as you want to give to the Social Security surplus, or do you agree that it should?

Mr. Daniels. I do not agree. I think we need to be very careful, not talking too loosely about Medicare surpluses. Viewed in a unified fashion, Medicare does not run a surplus. Medicare costs more money than it raises in its dedicated revenue stream. Therefore, I think that we need to be careful not to delude ourselves about the long-term issues facing Medicare, which I think most people would agree may be even more foreboding and serious than those facing Social Security.

So I think that a degree of real caution is in order. We could allow the concept of a Medicare surplus, which exists in Part A, but not in toto, to obscure the need for real reform, to which this administration will be committed as a fairly early priority. So for that reason, I would be very hesitant to see us treat those funds in the same way we do Social Security, which I think is quite in order.